

Finance and Resources Committee 17 November 2008

Proposal for the Introduction of Childcare Vouchers Scheme

Executive summary and recommendations

Introduction

According to research conducted by the National Centre for Social Research on behalf of HM Revenue and Customs (HMRC), approximately 2.5% of organisations in the UK offer Childcare Voucher Schemes to their employees.

The Executive proposes that such a Scheme be introduced at HPC to improve family friendly working practices at the HPC. This would be particularly useful for situations where employees request flexible or part-time working due to childcare commitments which cannot always be accommodated due to business needs. A Scheme would mean that there would be some kind of other benefit that could be offered.

Should such a Scheme be introduced at the HPC, 22 of the 120 employees may be potentially eligible to apply, having children of an age where the vouchers would be applicable (however there are some restrictions as outlined below).

This research has shown that offering family friendly benefits as part of an employee benefits package can aid organisations in:

- Recruitment: family friendly policies, such as childcare vouchers and flexi-time offered by companies can be attractive benefits to those with children;
- Employee retention: childcare vouchers can prove to be an incentive to parents returning to work after having a child, knowing that childcare help is provided by the employer; and
- Boosting morale and productivity: the research has also shown that employees who know their child is in the safe hands of a carer whilst they are at work show greater productivity which helps boost morale.

Scheme Types

Childcare vouchers can be offered in a number of ways:

1. Salary sacrifice

This is an option that many organisations opt for. This would entail employees swapping part of their taxable salary for tax free vouchers. The employee would sign an agreement outlining this arrangement, and the amendment would be attached to their contract. It is estimated that each parent can save up to £1,196 a year (those in the higher tax bracket) by swapping part of their taxable salary for tax-free childcare vouchers.

2. In addition to salary

This option would be more expensive for the employer, but increases the total remuneration of the employee. This would involve the HPC giving the employees vouchers in addition to their salary which could potentially cost up to £243 per month per employee as this is the normal amount of vouchers people request.

With the salary sacrifice route, an employee would sacrifice part of their gross taxable salary and in return would receive childcare vouchers for the equivalent amount. Employers can offer employees up to £55 a week or £243 a month in childcare vouchers, which are free of tax and national insurance. The tax and national insurance would be calculated from the remaining amount of the employee's taxable salary. For example, a salary of £20,000 minus £243 equals a taxable salary of £19,757.

It should be noted that childcare vouchers are not necessarily cost effective for all employees as this can affect their Tax Credits. Child and Working Tax Credits are based on factors such as annual salary, contractual hours worked, and the age of the child, and these must be considered when individual employees take a decision on whether to join a childcare voucher scheme. Accor Services, the recommended provider by the HPC should a Scheme be adopted would advise employees on what their tax credit position would be and whether they would be better or worse off before joining.

Following research into various companies that provide the administration for such Schemes, Accor Services would be the recommended provider.

Decision

The Council/Committee is asked to:

- Discuss the proposed benefit of childcare vouchers; and
- Approve the EMT's recommendation of the introduction of a Childcare Voucher Scheme effective 1 April 2009 using the salary sacrifice option.

Background information

Nil

Resource implications

A small amount of time will be involved for the human resources and finance departments in setting up and maintaining the system. Once the start-up process is completed, the provider deals with the on-going management and employee enrolment. The Finance Department would process the payroll deductions and pay an invoice to the provider.

Financial implications

This benefit would be introduced in the 2009-2010 financial year (on 1 April 2009) following a roll-out of the Scheme to employees this financial year and setting up the necessary finance department procedures.

Cost implications are a potential saving to the HPC of a maximum of £4,362 per year.

Please note this is an estimate based on the assumption that all eligible employees take the full benefit as we are currently cannot estimate exactly how many of the eligible employees would do so. If all those eligible take up the Scheme, the employer National Insurance saving is £8,211 and there is a 6% administration charge from Accor Services (£3,849) to provide the administration for the Scheme, leaving a saving of £4,362.

Appendices

Nil

Date of paper

28 November 2008